

TOROMONT

INDUSTRIAL HOLDINGS LTD.

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1971

AR24

SEP - 9 1971

TOROMONT
INDUSTRIAL HOLDINGS LTD.

**INTERIM REPORT
TO SHAREHOLDERS**

SIX MONTHS ENDED JUNE 30, 1971

To the Shareholders

The consolidated operating profit for the six months to June 30, 1971 was \$22,401 as compared with a consolidated operating loss of \$265,753 for the same period in 1970. An additional profit of \$44,084 was made on the sale of a property. Sales in this period amounted to \$11,977,932 or approximately the same as the first six months of 1970.

This improvement in the operating results of \$288,000 can be attributed to more effective management at the subsidiary companies and to better cost controls introduced in 1970.

CIMCO Limited earned a small profit in the period of \$33,000 as compared with a reported loss of \$32,510 for the first six months of 1970. Phasing out of the operations of the Mechanical Division is expected to be completed by October of this year.

As a result of our investigation into irregularities at CIMCO your Company has initiated the following legal actions:

1. An action for damages in the amount of \$3,000,000 against the sellers of CIMCO common shares to Toromont in April, 1969, namely: Canada Permanent Trust Company as Trustee of the Howard V. Shipley Trust, J. Davis, W. L. Pharo, H. V. Shipley and W. L. B. Watts; and
2. An action by CIMCO Limited against the former President of CIMCO W. L. Pharo and the former Vice-President & Secretary-Treasurer W. L. B. Watts for the recovery of \$150,000 received by them from CIMCO and for damages in the amount of \$300,000 for breach of their fiduciary duties as directors and officers of CIMCO Limited.

In addition your company has commenced preliminary negotiations pending legal action against

other parties involved in the purchase by Toromont of the common shares of CIMCO in April 1969.

These operating results for the first half should not be taken as indicative of the full year 1971. Historically the largest portion of the annual earnings of the companies in the Toromont group have been earned in the last four months of the year and this pattern is expected to continue this year.

The operating results of the first half strengthen our opinion that 1971 profits will justify the resumption of preferred dividends during the latter part of this year.

S. J. SINCLAIR
Chairman of the Board

P. S. SEPHTON
President

August 23, 1971

**TOROMONT INDUSTRIAL HOLDINGS LTD.
and Subsidiaries**

**CONSOLIDATED STATEMENT OF OPERATIONS
AND RETAINED EARNINGS**

for the six months ended June 30, 1971
(with comparative figures for 1970)

UNAUDITED	<u>1971</u>	<u>1970</u>
Sales	<u>\$11,977,932</u>	<u>\$12,071,717</u>
Earnings (loss) before undernoted items:	<u>\$ 196,284</u>	<u>\$ (136,381)</u>
Provision for income taxes	155,860	107,945
Provision for minority interests in earnings of subsidiaries (restated for 1970)	<u>18,023</u>	<u>21,427</u>
Earnings (loss) from operations	22,401	(265,753)
Gain on disposal of real estate, net of income tax	<u>44,084</u>	<u>—</u>
Net earnings (loss) for the period	66,485	(265,753)
Retained earnings (deficit) beginning of period	(46,564)	241,515
Quarterly dividends on preferred shares	<u>—</u>	<u>113,750</u>
Retained earnings (deficit) end of period	<u>\$ 19,921</u>	<u>\$ (137,988)</u>

Quarterly dividends aggregating \$170,625 as of July 15, 1971 on 350,000, 6½% cumulative preferred shares, Series A, have not been declared or paid since October 15, 1970.

**TOROMONT INDUSTRIAL HOLDINGS LTD.
and subsidiaries**

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

for the six months ended June 30, 1971
(with comparative figures for 1970)

UNAUDITED	<u>1971</u>	<u>1970</u>
Source of Funds		
From operations		
Earnings (loss) from operations (Restated for 1970)	\$ 22,401	\$ (265,753)
Adjustment for charges not requiring use of funds		
Depreciation & amortization of fixed assets	163,289	162,157
Minority interests in earnings of subsidiaries	<u>18,023</u>	<u>21,427</u>
Funds provided from (applied to) operations	203,713	(82,169)
Disposal of fixed assets	74,105	
Decrease in non current bills receivable	29,356	
Special refundable tax repaid		9,996
Dividend from liquidation of United Kingdom subsidiaries		<u>12,813</u>
	<u>307,174</u>	<u>(59,360)</u>
Application of Funds		
Additions to fixed assets	56,227	162,683
Decrease in long term debt	36,231	3,922
Dividends, including minority shareholders of subsidiaries	18,023	135,177
Redemption of preferred shares of subsidiary	18,102	18,102
Sundry	<u>5,171</u>	<u>701</u>
	<u>133,754</u>	<u>320,585</u>
Increase (decrease) in working capital	<u>\$ 173,420</u>	<u>\$ (379,945)</u>

TOROMONT INDUSTRIAL HOLDINGS LTD.

JUN 15 1971

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual and Special General Meeting of the Shareholders of Toromont Industrial Holdings Ltd. (hereinafter called the "Company") will be held in Rooms No. 7 & 8 of the Royal York Hotel, Toronto, Ontario on the 29th day of June, 1971 at the hour of 11:00 in the forenoon (Eastern Daylight Saving time) for the following purposes:

- (a) To receive the report of the Directors and to receive, and if thought fit, approve the consolidated financial statements of the Company and its subsidiary companies for the fiscal year ended December 31, 1970, together with the report of the auditors thereon;
- (b) To consider and, if thought fit, sanction, with or without variation, By-Law No. 11 of the Company being a by-law authorizing the institution of an incentive stock purchase plan of the Company as an alternative to the Company's incentive stock option plan;
- (c) To consider and, if thought fit, sanction, with or without variation, By-Law No. 12 of the Company being a by-law increasing the authorized number of directors of the Company from nine to ten, of whom six shall constitute a quorum;
- (d) To elect directors;
- (e) To appoint auditors, and to authorize the directors to fix their remuneration;
- (f) To transact such other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto, Ontario, this 7th day of June, 1971.

By Order of the Board of Directors

F. KRUBERG,
Secretary

NOTE:

If you are unable to attend the meeting in person please date and sign the enclosed form of proxy and return it in the envelope provided for that purpose.

A copy of the consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 1970, a copy of an information circular and a form of proxy accompany this notice.

A copy of by-laws 11 and 12 will be available at the meeting.

TOROMONT INDUSTRIAL HOLDINGS LTD.

PROXY INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the Management of Toromont Industrial Holdings Ltd. (the Company) for use at the Annual and Special General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the notice of meeting and at any adjournment or adjournments thereof. The solicitation will be primarily by mail, but proxies may also be solicited personally by regular employees of the Company. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. **A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO** by inserting such person's name in the blank space provided in the form of proxy and striking out the names of the three specified persons or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company at least 48 hours before the time of the meeting.

A shareholder who has given a proxy may revoke it, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company on or before the day preceding the day of the meeting or adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, **SUCH SHARES WILL BE VOTED FOR THE SANCTION OF BY-LAWS 11 AND 12, THE APPROVAL OF THE AUDITOR'S REPORT AND FINANCIAL STATEMENTS, AND FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR OR WITHHELD FROM VOTING IF SO INDICATED ON THE FORM OF PROXY.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

At the close of business on May 31, 1971 the Company had outstanding 3,302,469 common shares without par value of the capital stock and each of such shares carries the right to one vote at a meeting of shareholders of the Company.

The persons entitled to vote at the meeting or to be represented thereat by proxy will be shareholders of record at the close of business on May 31, 1971, being the record date for the determination of those persons entitled to vote at the meeting.

BY-LAWS 11 AND 12

The meeting is called as a Special General Meeting of Shareholders for the purpose of considering, and if thought fit, sanctioning, with or without variation, By-laws 11 and 12 passed by the board of directors on May 18, 1971.

By-law No. 11 authorizes the directors to institute an incentive stock purchase plan to key employees of the Company, as an alternative to the Company's existing incentive stock option plan, as a means of enabling them to participate in the growth of the Company. The by-law makes available 100,000 common shares in the capital stock of the Company for such a stock purchase plan and authorizes the directors to make such rules and regulations with respect thereto as they shall deem advisable. The price at which shares of the Company will be made available under the plan authorized by this by-law shall be the closing market price on The Toronto Stock Exchange on the day immediately preceding the date of purchase of shares under the plan. The by-law shall terminate, except with respect to any outstanding rights granted under a stock purchase plan authorized thereunder, ten years following the date of its confirmation by the shareholders.

By-law No. 12 increases the number of directors of the Company from nine to ten, of whom six shall constitute a quorum.

The above descriptions of By-laws 11 and 12 do not purport to be complete and reference is made to the complete texts of the said by-laws which will be available at the meeting.

ELECTION OF DIRECTORS

Subject to By-law No. 12 being sanctioned by the shareholders, there will be a board of ten directors of whom six shall constitute a quorum. The by-laws of the Company provide that the directors shall hold office from the date of the meeting at which they are elected until the Annual Meeting next following or until their successors are elected. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are submitted herewith. The management is not presently aware that any such nominee would be unwilling to serve as a director if elected. In the event that prior to the meeting any vacancies occur in the slate of nominees submitted herewith the persons named in the enclosed form of proxy reserve the right to vote in their discretion for other nominees as directors. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table sets out the name of each of the persons proposed to be nominated for election as a director of the Company; all positions and offices in the Company now held by him; his principal occupation; the year in which he was first elected a director; and, with notes (1) and (2), the approximate number of shares of each class of the Company that he has advised are beneficially owned by him, directly or indirectly.

Name and principal occupation	Year first became a director	Common shares beneficially owned directly or indirectly
W. M. V. Ash, M.A., Toronto, Ontario Vice-President of the Company Director of several companies	1965	24,000
D. C. Barber, B.A.Sc., Toronto, Ontario President, Precision Castings Limited	1962	17,200
A. T. Hunt, Toronto, Ontario Director of several companies	1965	10,000
B. B. Lockwood, Q.C., Toronto, Ontario Partner of Blake, Cassels & Graydon	—	—
A. Marcil, Montreal, Quebec Vice-President of the Company President, Marcil Mortgage Corp.	1965	16,500
General Sir N. M. Ritchie, G.B.E., K.C.B., D.S.O., M.C., Toronto, Ontario Chairman of the Board, Mercantile & General Reinsurance Co. of Canada Limited	1962	22,500
P. S. Sephton, Burlington, Ontario President of the Company	1970	27,000
S. J. Sinclair, Toronto, Ontario Chairman of the Board of Directors of the Company	1969	300
N. G. Van Nest, Toronto, Ontario Vice-President and Director, Wisener and Partners Company Limited	1969	20,000
D. S. Young, P.Eng., Toronto, Ontario Executive, Montreal Engineering Company Limited	1970	40,000

NOTES:

- (1) In addition to common shares, Mr. P. S. Sephton is the beneficial owner of 5,000 6½ % Cumulative Redeemable Convertible Preferred Shares, Series A, of the Company.
- (2) In addition to common shares, Mr. N. G. Van Nest is the beneficial owner of 2,000 6½ % Cumulative Redeemable Convertible Preferred Shares, Series A, of the Company.
- (3) For the five years preceding his employment with the Company, Mr. P. S. Sephton was the President of Life Savers Limited
- (4) For the past five years Mr. B. B. Lockwood, Q.C., has been a partner in the law firm of Blake, Cassels & Graydon, the solicitors of the Company.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the fiscal year ended December 31, 1970 the aggregate remuneration paid or payable by the Company

(a) to the directors of the Company as directors was \$5,900; and

(b) to the officers of the company as officers was \$89,700.

No remuneration was paid or payable by the subsidiaries of the Company to any such directors or officers.

The Company does not provide pension benefits for its directors and officers. The estimated aggregate cost to a subsidiary of the Company for the fiscal year ended December 31, 1970 of all pension benefits proposed to be paid to an officer of the Company by virtue of his being also a senior officer of a subsidiary of the Company under a normal pension plan in the event of his reaching retirement age, is \$1,167.

Since January 1, 1970 a director and senior officer was granted an option to purchase common shares of the Company on terms and conditions as follows:

<u>Date option granted</u>	<u>Number of common shares</u>	<u>Price per share</u>	<u>Date option expires</u>	<u>Price range of shares on Toronto Stock Exchange in 30-day period preceding granting of option</u>
January 30, 1970	150,000	\$1.00	Jan. 30, 1980	\$1.10 to \$1.40

The Board of Directors approved a stock purchase plan in accordance with By-law No. 11. Under the provisions of this plan, a director and senior officer was granted the right to purchase 40,000 common shares in the capital of the Company at the price provided for in the by-law. The right was granted and exercised on May 18th, 1971, subject only to the confirmation of this by-law at this meeting.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the reappointment of Messrs. Touche Ross & Co., Chartered Accountants, Toronto, Ontario, who have been auditors of the Company for more than five years, as auditors of the Company to hold office until the next Annual Meeting of Shareholders.

Dated as of June 7, 1971.

Toromont Industrial Holdings Ltd.

SEP 13 1971

INFORMATION CIRCULAR

Special Meeting of holders of Common Shares

This Information Circular is furnished in connection with the solicitation of proxies by the management of Toromont Industrial Holdings Ltd. ("Toromont" or the "Company") for use at the Special Meeting (the "Meeting") of the holders of Common Shares of the Company to be held on September 28, 1971 for the purposes set forth in the notice of meeting and at any adjournment or adjournments thereof. The solicitation will be primarily by mail, but proxies may also be solicited personally by regular employees of the Company. The cost of solicitation by management will be borne by the Company.

Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy are directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company not later than September 24, 1971. A person appointed as proxy need not be a shareholder of the Company.

A shareholder who has given a proxy may revoke it, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company on or before the day preceding the day of the Meeting or adjournment thereof at which the proxy is to be used, or with the Chairman of such Meeting on the day of the Meeting or adjournment thereof.

Exercise of Discretion by Proxies

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the directions of the shareholders appointing them. In the absence of such direction SUCH SHARES WILL BE VOTED FOR THE SANCTION OF A RESOLUTION APPROVING THE PROPOSED REQUEST FOR TENDERS FOR THE PURCHASE FOR CANCELLATION OF THE COMPANY'S 6½% CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED SHARES, SERIES A (THE "SERIES A SHARES") IN EXCHANGE FOR \$4 CASH AND 3 FULLY-PAID AND NON-ASSESSABLE COMMON SHARES IN THE CAPITAL STOCK OF THE COMPANY.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of Meeting and with respect to other matters which may properly come before the Meeting. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the notice of Meeting.

Interest of Certain Persons and Companies in Matters to be Acted Upon

The following table sets out the approximate number of shares of each class of the Company beneficially owned, directly or indirectly, by the directors and senior officers of the Company:

<u>Name and Office</u>	<u>Common Shares</u>	<u>Series A Shares</u>
W. M. V. ASH, M.A..... Vice-President and Director	24,000	—
D. C. BARBER, B.A.Sc..... Director	17,200	—
A. T. HUNT..... Director	10,000	—
B. B. LOCKWOOD, Q.C..... Director	100	—
A. MARCIL..... Vice-President and Director	16,500	—
GENERAL SIR N. M. RITCHIE, G.B.E., K.C.B., D.S.O., M.C.,..... Director	22,500	—
P. S. SEPHTON..... President and Director	27,000	5,000
S. J. SINCLAIR..... Chairman of the Board and Director	300	—
N. G. VAN NEST..... Director	20,000	2,090
D. S. YOUNG, P. ENG.,..... Director	40,000	—

The management of the Company is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise of any director or senior officer of the Company, or any of their associates, in any matter to be acted upon at the Meeting, except as aforesaid.

Voting Shares

The Company has outstanding 3,302,469 common shares without par value and each of such shares carries the right to one vote at the Meeting.

Particulars of Matters to be Acted Upon

The Meeting has been called as a Special Meeting for the purpose of considering and, if thought fit, passing a resolution sanctioning a proposed reorganization of the Company's capital structure, which will be carried out by requesting tenders from the holders of the Series A Shares for the purchase for cancellation by the Company of such shares in exchange for the issue in respect of each share tendered of \$4 in cash plus 3 fully-paid and non-assessable common shares in the capital stock of the Company. The effect of such a transaction, if all of the outstanding Series A Shares are tendered, is illustrated in the pro forma consolidated balance sheet of the Company which forms part of the financial statements accompanying this circular.

Because of the arrears of dividends on the Series A Shares, it is necessary to hold a meeting of the Series A Shareholders to obtain authority to make the request for tenders. The request for tenders from the holders of the Series A Shares does not require the approval of the common shareholders. However, in view of the importance of this proposed offer to all shareholders of the Company the common shareholders' approval of this action is also being requested.

Toromont Industrial Holdings Ltd.

September 10, 1971

To: The holders of all outstanding shares of
Toromont Industrial Holdings Ltd.
(the "Company")

SEP 13 1971

Dear Sir or Madam:

Enclosed with this letter is an Information Circular relating to meetings to authorize a proposed reorganization of the capital of the Company, consisting of:

(a) a waiver by the holders of the Company's 6½% Cumulative Redeemable Convertible Preferred Shares, Series A (the "Series A Shares") of certain of the conditions attached to such shares, in order to permit the Company to make the request for tenders referred to below; and

(b) a request by the Company for tenders to purchase Series A Shares for cancellation in exchange for the issue, for each Series A Share tendered, of \$4 in cash and 3 common shares of the Company.

The financial statements forming part of the Information Circular illustrate the effect of the proposed reorganization, on the assumption that all proposals are approved and that the holders of all Series A Shares tender them for purchase for cancellation.

As you will see in this material, the Directors of the Company have considered the proposed reorganization and recommend that you approve it. Meetings are being called of the holders of both the common and the Series A Shares of the Company to authorize the reorganization. Notice of the meeting or meetings to be held by the holders of the class of shares held by you and other pertinent material are enclosed with this letter.

We would urge you to attend your meeting or meetings personally or to complete or deposit your proxy or proxies in the appropriate manner.

If the reorganization is approved at the forthcoming meetings of shareholders, requests for tenders and other appropriate documents will be forwarded to holders of the Series A Shares within 10 days after the meetings.

Yours very truly,

S. J. SINCLAIR

Chairman of the Board
and Chief Executive Officer

Toromont Industrial Holdings Ltd.

(incorporated under the laws of Canada)

SEP 13 1971

Notice of Special Meeting of the holders of Common Shares

TAKE NOTICE that a Special Meeting of the holders of Common Shares of Toromont Industrial Holdings Ltd., will be held in the York Room, Royal York Hotel, Toronto, Canada, at 11:00 a.m. on Tuesday, the 28th day of September, 1971, for the following purposes:

- (1) to consider and if thought fit pass a resolution sanctioning the proposed request for tenders for purchase for cancellation of the Company's 6½% Cumulative Redeemable Convertible Preferred Shares, Series A in exchange for \$4 cash and 3 fully-paid and non-assessable common shares of the capital stock of the Company; and
- (2) to transact such other business as may properly be brought before the meeting.

An explanation of the Company's proposed actions is set forth in the accompanying Information Circular.

65 Villiers Street,
Toronto 2, Ontario
September 10, 1971

By Order of the Board.
F. Kruberg
Secretary

Please promptly sign, date and return the enclosed proxy in the self-addressed envelope if it is not your intention to be present at the Meeting. If you are personally present at the Meeting and desire to do so, you may withdraw your proxy and vote in person.

Background

The following information, which includes an outline of the more important events which have occurred since the acquisition of CIMCO LIMITED ("Cimco") in April, 1969, may be helpful to you in considering these proposals.

Reorganization of the management structure of Toromont was commenced in 1969 and since that time the Company has not made further acquisitions. Instead, management has concentrated on improving the operations of the existing group of companies and, in the process, has developed an appreciation of the personnel, operations and prospects of each of the companies in the Toromont group. The more important actions taken include the following:

1. The unprofitable operations of the United Kingdom subsidiaries of Clare Brothers Limited were liquidated in late 1969. Although this action resulted in a loss on termination of about \$185,000 in 1969, it successfully eliminated a continuing drain on the profits and operations of Clare Brothers Limited.
2. A more realistic valuation was placed on accounts receivable and inventories resulting in a write-down in 1969 of \$151,000.
3. The senior management of all subsidiary companies, with the exception of F. B. McFarren Limited, was changed during 1970 to provide more aggressive and cost-conscious leadership.
4. In 1970 a number of programmes were introduced which place more emphasis on the control of costs and the assets employed in each subsidiary.
5. During the third quarter of 1970 management decided to carry out a comprehensive investigation of the organization and operations of Cimco. This investigation disclosed the following information:
 - (a) The published financial statements of Cimco for the years 1968 and 1969 and the first two interim reports for 1970 were substantially in error. Profits had been grossly overstated and the operations, organization and affairs of the company generally had been misrepresented.
 - (b) The operations of a major division of Cimco—The Mechanical Division—had lacked adequate controls since 1967. This division had operated at substantial losses since its inception in 1965, with a total loss in the 1965 to 1970 period of \$1,400,000. Certain large losses incurred on major contracts had not been reflected in the published financial statements.
 - (c) In order to offset these losses, Cimco had taken into account (in the years 1968 and 1969) profits on long-term contracts which had not been earned, thereby contributing to the overstatement of net profits.
 - (d) During the year 1968 Cimco implemented a change in the application of an accounting principle and the published financial statements for 1968 did not disclose either this information or the important effects of this change on the 1968 earnings.
 - (e) In the period 1965 to 1970, the President and the Vice-President and Secretary-Treasurer of Cimco arranged for the payment of bonuses to themselves substantially in excess of the amounts authorized by the Board of Directors.
 - (f) Cimco had been operating for several years without effective senior management and without adequate control or direction from its Board of Directors.

As a result of this information, the following actions were taken:

- (i) The President and the Vice-President and Secretary-Treasurer were dismissed for cause.
- (ii) A special provision of \$549,000 was made in the accounts for the year 1970 in respect of contracts in progress at December 31, 1969. A major part of this provision could properly be attributed to prior years.
- (iii) The payment of all dividends by Cimco and dividends on the Series A Shares of Toromont were suspended.
- (iv) A decision was made to terminate the activities of the Mechanical Division of Cimco as quickly as possible.
- (v) The auditors of Cimco were changed.

Following a detailed examination and study of this information, management estimated that Toromont has suffered losses arising from the acquisition of Cimco totalling approximately \$4,000,000 and that steps should be taken to recover these losses. Accordingly, in 1971 your Board instructed counsel to proceed with the following legal actions:

- (i) An action for damages for misrepresentation against the sellers of the common shares of Cimco in April, 1969, namely:
 - Canada Permanent Trust Company, as Trustee of the Howard V. Shipley Trust
 - J. Davis
 - W. L. Pharo
 - H. V. Shipley, and
 - W. L. B. Watts
- (ii) An action against the former President and the former Vice-President and Secretary-Treasurer of Cimco claiming \$150,000 in respect of monies improperly received by them and a further amount of \$300,000 in respect of breach of their fiduciary duties to Cimco.
- (iii) An action for damages for negligence against Thorne, Gunn, Helliwell & Christenson, the former auditors of Cimco.

During the last two years, Toromont also suffered from the serious downturn in the Canadian economy which commenced in early 1969 and continues to this day. As a result, Toromont showed a consolidated loss of \$106,232 on the combined results of 1969 and 1970 on total sales of approximately \$54,000,000. In addition, being unaware of the true state of affairs at Cimco until October, 1970, the Company continued to declare and pay dividends on the Series A Shares—\$110,474 in 1969 and \$170,625 in 1970. As a result of all these factors the Company went into deficit at December 31, 1970 to the extent of \$46,564, with a deterioration of \$387,331 from the position at January 1, 1969, prior to the purchase of Cimco, when the Company had a surplus of \$340,767.

Current Prospects

Despite the many problems facing Cimco and its lack, for several years, of competent senior management, it is the opinion of the Board of Directors of Toromont that Cimco can be rebuilt into a healthy company, but time will be required to realize the earnings potential upon which the acquisition of Cimco was predicated. It is also the opinion of the Board that the Company should pursue aggressively the legal actions referred to above. Disposition of these actions by the courts may involve periods as long as two to three years.

Reorganization of the management structure of Toromont's other subsidiary companies was substantially completed during 1970 and the effects are becoming evident in the improved operating results for 1971 which were mailed to you on August 26.

Management expects this improvement to continue throughout the year and that profitable levels of operations will be achieved in 1971 and future years.

Effect of Reorganization

The effect of the proposed reorganization, if all of the outstanding Series A Shares are tendered for purchase for cancellation, is illustrated in the pro forma balance sheet of the Company accompanying this circular. The anticipated benefits which will accrue to shareholders and to the Company are set forth below.

Series A Shareholders

Management of the Company anticipates that it will be possible to resume payment of dividends on the Series A Shares before the end of the current fiscal year. However, you have been made aware of the difficulties encountered in the operations and management of Cimco and you will recall that the Series A Shares were issued primarily to repay indebtedness incurred by the Company for the purpose of acquiring the shares of Cimco. To date this investment has been disappointing for the Company and for the holders of Series A Shares.

The proposed reorganization makes available to the holders of the Series A Shares a course of action which will permit them to immediately recover \$4 in cash and to participate as common shareholders in the anticipated recovery of the fortunes of the Company at an earlier stage than would be feasible if the Series A Shares were merely held for conversion.

By way of illustration, if a holder of Series A Shares were to present them for conversion before July 14, 1972 he would be entitled to acquire 10 common shares in exchange for 3 Series A Shares. Based on the original subscription price of \$10 per Series A Share, this conversion right places an effective price on the common shares of \$3 per share. On the other hand, if he were to accept the Company's request for tender of his Series A Shares, he would be entitled to receive \$4 in cash plus 3 fully-paid and non-assessable common shares for an effective price on the common shares of \$2 per share. Accordingly, the opportunity to participate in any future improvement in the Company's performance will be substantially enhanced by accepting the proposed request for tenders.

Common Shareholders

The future earnings available for the common shareholders will increase by the amount of the reduction in dividends on the Series A Shares of \$227,500 per annum less, in the first three years, interest costs on the funds borrowed for this transaction. On the basis that the loan will be repaid within three years the interest costs will then be eliminated as opposed to the continuing costs of the preferred dividends paid out of after-tax earnings. Arrangements have been completed by the Company to borrow from its bankers up to \$1,400,000 for this purpose.

Taking into account the dividends in arrears, which will aggregate \$227,500 by October 15, 1971, the cost of dividends on the Series A Shares over the next three years will amount to \$910,000 as opposed to an after-tax interest cost on the funds borrowed for this transaction of approximately \$100,000. This calculation of after-tax interest assumes that, under the proposed income tax reform legislation, interest on the funds borrowed will be deductible for tax purposes.

Because of the conversion prices attached to the Series A Shares it is unlikely that any significant number of them will be converted in the foreseeable future.

The book value of a common share of Toromont will increase slightly as a result of this reorganization.

The Company

The Company will be relieved of the responsibility of making large and continuing cash dividend payments on the Series A Shares out of after-tax earnings. The current dividends of \$227,500 annually represent an onerous burden for Toromont at this stage in its development.

Trading Record

The prices at which the common and Series A Shares of Toromont have traded during 1971 are illustrated in the following table of high and low prices during the weeks indicated:

<u>Week Ending</u>	<u>Series A Shares</u>		<u>Common Shares</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
February 25.....	\$4.25	\$4.00	\$.84	\$.76
April 29.....	4.75	4.50	1.15	.95
June 30.....	4.875	4.75	1.00	.86
August 26.....	5.50	5.00	1.00	.90

Summary and Recommendation

The Board of Directors has concluded that these changes in the capital structure of the Company are in the best long term interests of the Company, the Series A Shareholders and the common shareholders. It should be stressed, however, that this capital reorganization is being proposed subject to the approval of both the Series A and the common shareholders and, even if such approvals are obtained, tenders of Series A Shares for purchase will be at the option of each individual Series A Shareholder.

The Board of Directors of the Company recommends your approval of the proposed reorganization of the Company's capital structure.

DATED as of September 10, 1971.

Toromont Industrial Holdings Ltd.
(incorporated under the laws of Canada)

Condensed Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
as at June 30, 1971

(Unaudited)

	Consolidated Balance Sheet	Pro Forma Consolidated Balance Sheet (Note 1)
Assets		
Current assets.....	\$ 9,258,147	\$ 9,258,147
Fixed assets at cost less accumulated depreciation.....	3,030,576	3,030,576
Other tangible assets.....	723,129	723,129
Deferred charges and intangibles.....	1,429,660	1,429,660
	<u>\$14,441,512</u>	<u>\$14,441,512</u>
Liabilities		
Current liabilities (Note 1).....	\$ 4,847,591	\$ 5,374,258
Long term debt, and deferred income taxes (Note 1).....	796,704	1,730,037
Minority interests in consolidated net assets.....	343,654	343,654
	<u>5,987,949</u>	<u>7,447,949</u>
Shareholders' Equity:		
Capital Stock (Notes 2 and 3)		
CONSOLIDATED BALANCE SHEET:		
Authorized:		
1,000,000 preferred shares, par value \$10.00 each, issuable in series		
10,000,000 common shares without par value.		
Issued and fully paid:		
350,000 6½% cumulative redeemable convertible preferred shares		
Series A.....	3,500,000	
3,302,469 common shares.....	4,933,642	
	<u>8,433,642</u>	
Retained earnings.....	19,921	
	<u>8,453,563</u>	
PRO FORMA CONSOLIDATED BALANCE SHEET:		
Authorized:		
650,000 preferred shares, par value \$10.00 each, issuable in series		
10,000,000 common shares, without par value		
Issued and fully paid:		
4,352,469 common shares.....		5,983,642
Contributed surplus (Note 1).....		990,000
Retained earnings.....		19,921
		<u>6,993,563</u>
	<u>\$14,441,512</u>	<u>\$14,441,512</u>
Common shareholders' equity per share.....	\$1.50	\$1.61
Preferred dividends in arrears at June 30, 1971 per common share.....	.03	—
Net common shareholders' equity per share.....	1.47	1.61

TOROMONT INDUSTRIAL HOLDINGS LTD.

Notes to Condensed Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet

as at June 30, 1971

Note 1

The pro forma consolidated balance sheet as at June 30, 1971 gives effect to

- (1) the purchase and subsequent cancellation of 350,000 6½% cumulative redeemable convertible preferred shares, Series A, with a par value of \$10.00 per share, for a consideration per preferred share of \$4.00 cash and 3 fully-paid and non-assessable common shares of the Company, at a stated value of \$1.00 each. It is assumed that all 350,000 Series A preferred shares will be delivered for purchase and cancellation; and
- (2) the assumption of current and long term debt totalling \$1,400,000 to provide funds for the purchase of the preferred shares. It is anticipated these funds will be repaid within 3 years, in equal annual amounts and is reflected on that basis. The anticipated cost of the proposed transaction of \$60,000 is shown as a current liability, and has been deducted from the contributed surplus of \$1,050,000 which would result from the proposed purchase and cancellation of preferred shares, Series A.

Note 2

The issued preferred shares, Series A, are convertible into common shares of the Company as follows:

Up to July 14, 1972—
10 common shares for 3 preferred shares

July 15, 1972 to July 14, 1975—
5 common shares for 2 preferred shares

July 15, 1975 to July 14, 1979—
2 common shares for 1 preferred share

The shares are redeemable after July 15, 1974 at par value plus a premium of 3% until July 14, 1977, 2% to July 14, 1980 and 1% thereafter.

The quarterly dividends of \$56,875 on the preferred shares, Series A, have been paid for all periods up to and including the dividend due October 15, 1970. No quarterly dividends have been declared or paid since that date.

Note 3

	Consolidated Balance Sheet	Pro Forma Consolidated Balance Sheet
The following common shares of the Company's capital stock have been reserved for future issuance as at June 30, 1971:		
Under the provisions of stock purchase warrants expiring December 31, 1973 and exercisable at \$3.00 per share until December 31, 1972, thereafter at \$4.00 per share until December 31, 1973.....	500,000	500,000
Under conversion privileges granted to the holders of preferred shares, Series A—maximum issuable.....	1,166,667	—
Outstanding options granted under the Incentive Stock Option Plan for executives of the Company and its subsidiaries, which have not yet been exercised:		
\$1.75 per share, expiring Sept. 21, 1971.....	17,500	17,500
\$1.50 per share, expiring May 31, 1972.....	12,500	12,500
\$1.00 per share, expiring Jan. 30, 1980.....	150,000	150,000
Reserved for options not yet granted or resulting from options which have lapsed due to terminations.....	21,250	21,250
Reserved for Incentive Stock Purchase Plan.....	100,000	100,000
Common shares reserved.....	1,967,917	801,250
Common shares issued.....	3,302,469	4,352,469
Total common shares issued and reserved.....	<u>5,270,386</u>	<u>5,153,719</u>

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held in the Quebec Room of the Royal York Hotel, 100 Front Street West, Toronto, at 11:00 a.m. on Tuesday, March 28th, 1972.

The Board of Directors

W. M. V. ASH, M.A., Toronto
Director,
Mercantile and General Reinsurance
Company Ltd.
Bank of Montreal
The Bell Telephone Co. of Canada
and other companies

D. C. BARBER, B.A.Sc., Toronto
President,
Precision Castings Limited

A. T. HUNT, Toronto
Formerly Chairman of the Board,
Gestetner (Canada) Limited

B. B. LOCKWOOD, Q.C., Toronto
Partner,
Blake, Cassels and Graydon

A. MARCIL, Montreal
President,
Marcil Mortgage Corp.
Director,
Mercantile and General Reinsurance
Co. of Canada Ltd. and other companies

GENERAL SIR N. M. RITCHIE,
G.B.E., K.C.B., D.S.O., M.C., Toronto
Chairman of the Board,
Mercantile and General Reinsurance
Company of Canada Ltd.
Macdonald-Buchanan Properties Limited
Director,
Tanqueray-Gordon (Canada) Limited

S. J. SINCLAIR, Toronto
*Chairman of the Board
and Chief Executive Officer*
Toromont Industrial Holdings Ltd.

R. A. SCOON, Toronto
President,
Toromont Industrial Holdings Ltd.

N. G. VAN NEST, Toronto
Vice-President and Director,
Wisener and Partners Company Limited

D. S. YOUNG, P.Eng., Toronto
Executive, Montreal Engineering Company
Limited, formerly
President, Powerlite Devices Ltd.

Officers of the Company

S. J. SINCLAIR
*Chairman of the Board
and Chief Executive Officer*

R. A. SCOON
President

W. M. V. ASH
Vice-President

ANDRE MARCIL
Vice-President

F. KRUBERG
Vice-President, Finance and Secretary

Head Office

65 Villiers Street
Toronto 2, Ontario

General Counsel

Blake, Cassels & Graydon

Auditors

Touche Ross & Co.
Chartered Accountants

Transfer Agent and Registrar

Crown Trust Co.
Toronto and Montreal

Common Shares

Listed on the
Toronto Stock Exchange

Bankers

The Royal Bank of Canada,
Toronto
Canadian Imperial Bank
of Commerce, Toronto

TO THE SHAREHOLDERS

1971 was a year of significant progress for your Company. Each Toromont subsidiary earned a profit in this period, and consolidated operating profit was \$837,808 compared with a loss of \$117,454 in 1970. After provision for preferred dividends 1971 earnings were 18¢ per common share. This improvement can be attributed largely to the reorganization of our subsidiary companies in 1970-1971.

Demand for the products of your companies continued to show strength during the last quarter of the year and earnings for this quarter were \$452,067 – 10¢ per common share. With a continuation of current market conditions, 1972 profits are expected to exceed those of 1971.

1971 highlights include:

Redemption of Preferred Shares

At special general meetings of the Series A Preferred and Common shareholders held on September 28th, 1971, approval was given to purchase for cancellation the Company's outstanding preferred shares for a consideration of \$4.00 in cash and 3 common shares for each preferred share. At November 4, 1971, the expiry date of the offer, 258,725 preferred shares, out of a total outstanding of 350,000, had been tendered for purchase and cancellation. This transaction resulted in the issue of 776,175 common shares and created a contributed surplus of \$723,925, representing the par value of those preferred shares cancelled less the consideration paid for them and the costs of the reorganization. Against this contributed surplus your Board has approved a write-off of \$192,500, representing commissions paid when these preferred shares were originally issued in 1969. This amount of \$192,500 was included as part of the item described as "Commission on shares issued" on our 1970 balance sheet.

Preferred Dividends

It was the announced intention of your Board that preferred dividends would be resumed when operations returned to profitable levels. Accordingly, all arrears of dividends on the outstanding preferred shares have now been declared and paid, as has the preferred dividend payable in the first quarter of 1972.

CIMCO Limited

Since the results of CIMCO Limited affect our earnings to a marked degree, we set out below details of this Company's comparative results for 1971 and 1970:

	1971	1970
Sales	\$11,401,008	\$14,107,397
Income before special provision, income taxes and extraordinary item \$	632,638	\$ 309,547
Provision in respect of contracts in progress at beginning of year ...	—	549,000
Income (loss) before income taxes and extraordinary item	\$ 632,638	\$ (239,453)
Provision for (recovery of) income taxes	\$ 338,723	\$ (69,840)
Net income (loss) before extraordinary item	\$ 293,915	\$ (169,613)
Reduction of income taxes payable resulting from application of loss carry-forward from previous year ..	\$ 70,100	—
Net income (loss) for the year	\$ 364,015	\$ (169,613)

The more serious problems at this company have been resolved. The major factor in the improvement at CIMCO was the termination of the unprofitable Mechanical Division. A further benefit flowing from this decision has been the release of a substantial amount of cash formerly tied up in the inventories and accounts receivable of this division.

1971 saw the completion of your management's investigation of CIMCO which, as previously reported, disclosed serious irregularities in the organization, operations and published financial statements for certain prior years. After evaluating these findings, your Board initiated legal actions in 1971 for claims to the extent of approximately \$4,000,000, as follows:

1. An action for damages for misrepresentation against the sellers of the common shares of CIMCO to Toromont in April, 1969, namely:
Canada Permanent Trust Company, as Trustee of the
Howard V. Shipley Trust
J. Davis
W. L. Pharo
H. V. Shipley, and
W. L. B. Watts
2. An action for damages for negligence against Thorne, Gunn, Helliwell & Christenson, the former auditors of CIMCO.

In addition, CIMCO Limited has commenced a legal action against its former President and its former Vice-President and Secretary-Treasurer, claiming \$150,000 in respect of monies improperly received by them, and a further amount of \$300,000 for breach of their fiduciary duties.

These actions are being defended and final disposition could take two years or more.

1972 and Future Prospects

Your management is encouraged by the progress made in 1971, particularly the following:

- (a) The substantial increase in profits earned by each subsidiary.
- (b) The improvement in our financial position.
- (c) The strengthened morale of our management personnel, who can now see the favourable results of their concentrated efforts during the past eighteen months.

We have, now, a sound base for profitable growth. With the closing of the CIMCO Mechanical Division comes a greatly reduced exposure to the wide cyclical swings of the construction industry. Your Company is in a position to launch an orderly expansion program. Management and financial resources, the essential ingredients of such a program, are now available to us. A first step has been taken with the formation of a U.S. subsidiary – Low Temperature Systems, Inc. – to permit a better penetration of the large industrial refrigeration market in that country.

Our expansion plans will reflect your management's commitment to the long-range growth of Toromont. First amongst our objectives will be to increase earnings per share and to improve the return on our invested capital.

On behalf of the Board I extend thanks to our employees whose efforts made possible the progress in 1971.

S. J. SINCLAIR
Chairman of the Board

March 6, 1972
Toronto, Ontario

The Toromont Group of Companies

CIMCO Limited

S. J. SINCLAIR
President

L. O. CROOKS
Executive Vice-President

R. S. ROSE
Executive Vice-President

F. P. WAINHOUSE
Vice-President Finance and Secretary

Canada's leading company in the design, manufacture and installation of industrial refrigeration equipment for skating and curling rinks, mining, petrochemical and food processing industries. Services are available through branch operations across Canada and increased market penetration is being attained in the United States of America.

Head Office and plant located in Toronto, Ontario.

Clare Brothers Limited

P. V. BURKE
President

E. C. CLARE
Vice-President

Manufacturer and distributor of gas and oil heating systems and distributors of complete air conditioning systems throughout Canada.

Head Office and plant are located in Preston, Ontario.

El-Met-Parts Limited

R. A. SCOON
President

J. PAPAKYRIAKOU
Executive Vice-President

Manufacturer of magnetic cores and steel laminations for the electrical and electronics industry. The Company's products are available to all Canadian markets.

El-Met provides a comprehensive combination of technical assistance, laboratory facilities and tool design.

Head Office and manufacturing facilities are located in Dundas, Ontario.

Lloyd-Truax Limited

C. D. LLOYD
President

F. E. JOLLIFFE
Vice-President

This Company manufactures the most complete line of interior and exterior wood doors available from a single source in Canada. Sales are to all provinces in Canada except British Columbia.

Head Office is located in Wingham, Ontario, with manufacturing facilities in both Wingham and Walkerton.

F. B. McFarren Limited

J. A. SIMPSON
President

Manufacturer of a variety of burned clay bricks for the construction industry, primarily supplying the Ontario market.

Head Office and plant are located on a 61 acre site in Streetsville, Ontario.

Viking Pump Company of Canada Limited

R. A. SCOON
President

Manufacturer of rotary, centrifugal and turbine pumps for industrial uses. Through its own branches, supplemented by distributors, the company sells its products from coast to coast.

Head Office and plant are located in Windsor, Ontario.

TOROMONT

INDUSTRIAL HOLDINGS LTD.

(Incorporated under the Canada Corporations Act)
AND SUBSIDIARIES

Consolidated Balance Sheet as at December 31, 1971 *(with comparative figures for 1970)*

ASSETS

Current assets	1971	1970
Cash	\$ 363,336	\$ 344,447
Accounts receivable	4,678,241	6,356,446
Inventories, valued at the lower of cost and net realizable value ..	3,315,536	3,396,449
Income taxes recoverable and deferred (net)	—	124,740
Prepaid expenses	106,595	123,226
	<u>8,463,708</u>	<u>10,345,308</u>
Other assets		
Bills and mortgages receivable, not currently due	239,469	305,726
Cash surrender value of life insurance	55,222	62,818
Notes receivable from employees (Note 3)	241,450	—
Investments in non-affiliated companies, at cost	387,933	388,534
	<u>924,074</u>	<u>757,078</u>
Fixed assets, at cost		
Buildings and equipment	7,037,860	6,981,067
Less accumulated depreciation	4,168,925	3,903,700
	<u>2,868,935</u>	<u>3,077,367</u>
Land	73,029	76,824
	<u>2,941,964</u>	<u>3,154,191</u>
Deferred charges and intangibles		
Patents, at cost less amortization	33,002	37,946
Deferred pension charges	52,000	35,000
Goodwill, at cost	47,000	47,000
Commission on shares issued	150,000	342,500
Excess of cost of shares of subsidiaries over recorded book value of underlying assets at dates of acquisition	970,160	970,160
	<u>1,252,162</u>	<u>1,432,606</u>
	<u><u>\$13,581,908</u></u>	<u><u>\$15,689,183</u></u>

LIABILITIES

Current liabilities	1971	1970
Bank indebtedness (approximately \$900,000 secured)	\$ 1,215,993	\$ 2,387,129
Accounts payable	2,788,069	3,231,746
Progress billings and provision for losses in excess of contract costs	169,086	312,750
Accrual for preferred dividends	84,329	—
Taxes on income (net)	190,074	—
Long-term debt – current portion	82,667	176,547
	<u>4,530,218</u>	<u>6,108,172</u>
Long-term debt, less current portion (Note 2)	254,987	578,198
Deferred income taxes	357,783	254,737
Minority interest in consolidated net assets (Note 1)	326,395	360,998
	<u>5,469,383</u>	<u>7,302,105</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 3)		
Authorized		
741,275 preferred shares, par value \$10 each, issuable in series		
10,000,000 common shares without par value		
Issued and outstanding		
91,275 6½ % cumulative redeemable, convertible preferred shares, Series A (1970, 350,000 shares) .	912,750	3,500,000
4,333,644 common shares (1970, 3,302,469 shares)	5,951,267	4,933,642
	<u>6,864,017</u>	<u>8,433,642</u>
Contributed surplus (Note 4)	531,425	—
Retained earnings (deficit)	717,083	(46,564)
	<u>8,112,525</u>	<u>8,387,078</u>
	<u>\$13,581,908</u>	<u>\$15,689,183</u>

On behalf of the Board:

S. J. SINCLAIR, *Director* R. A. SCOON, *Director*

TOROMONT

INDUSTRIAL HOLDINGS LTD.

AND SUBSIDIARIES

Consolidated Statement of Earnings and Retained Earnings

for the year ended December 31, 1971 *(with comparative figures for 1970)*

	1971	1970 (Note 9)
Sales		
Manufacturing	\$14,418,354	\$12,390,192
Contracting	11,401,008	14,107,397
	<u>\$25,819,362</u>	<u>\$26,497,589</u>
Earnings before undernoted items	<u>\$ 1,601,511</u>	<u>\$ 523,152</u>
Provision in respect of CIMCO Limited contracts in progress at beginning of 1970 (Note 9)	—	(549,000)
Profit on disposal of real estate	52,760	134,312
Interest on long-term debt	(48,683)	(68,537)
	<u>4,077</u>	<u>(483,225)</u>
Earnings before income taxes, minority interest and extraordinary item	<u>1,605,588</u>	<u>39,927</u>
Provision for income taxes		
Current		
Income taxes on earnings	746,369	322,773
Reduction due to loss of a subsidiary carried back	—	(149,678)
Deferred	120,678	(45,003)
	<u>867,047</u>	<u>128,092</u>
Earnings (loss) before minority interest	738,541	(88,165)
Minority interest in net earnings of subsidiaries	45,943	29,289
Earnings (loss) before extraordinary item	692,598	(117,454)
Reduction of income taxes due to losses carried forward from prior years	145,210	—
Net earnings (loss) for the year	837,808	(117,454)
Retained earnings (deficit) at beginning of year	(46,564)	241,515
	<u>791,244</u>	<u>124,061</u>
Dividends on preferred shares	74,161	170,625
Retained earnings (deficit) at end of year	<u>\$ 717,083</u>	<u>(\$ 46,564)</u>
Earnings (loss) per common share (Note 8)		
Before extraordinary item	14.6¢	(9.2¢)
After extraordinary item	18.0¢	(9.2¢)

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1971 *(with comparative figures for 1970)*

	<u>1971</u>	<u>1970</u> (Note 9)
Source of funds		
From operations		
Net earnings (loss) for the year	\$ 837,808	(\$ 117,454)
Adjustments for charges (credits) not involving use of funds		
Depreciation and amortization	301,891	318,374
Deferred income taxes – non-current portion	103,046	(31,670)
Profit on disposal of fixed assets	(53,768)	(134,312)
Recovery of pension charges	(17,000)	(35,000)
Funds provided from operations	<u>1,171,977</u>	<u>(62)</u>
Proceeds on disposal of fixed assets	74,462	49,417
Decrease (increase) in non-current bills and mortgages receivable	66,257	(55,062)
Other items – net	9,798	2,392
	<u>1,322,494</u>	<u>(3,315)</u>
Application of funds		
Additions to fixed assets	105,414	261,931
Decrease in long-term debt	323,211	161,635
Dividends on preferred shares	74,161	170,625
Redemption of preferred shares of a subsidiary	36,204	36,204
Purchase of preferred shares and related costs	1,087,150	—
	<u>1,626,140</u>	<u>630,395</u>
Decrease in working capital	303,646	633,710
Working capital at beginning of year	4,237,136	4,870,846
Working capital at end of year	<u>\$3,933,490</u>	<u>\$4,237,136</u>

Auditors' Report

The Shareholders,
Toromont Industrial Holdings Ltd.

We have examined the consolidated balance sheet of Toromont Industrial Holdings Ltd. and its subsidiaries as at December 31, 1971, and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 10, 1972

TOUCHE ROSS & CO.
Chartered Accountants

TOROMONT

INDUSTRIAL HOLDINGS LTD.

AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 1971

1. Principles of consolidation

- (a) The consolidated financial statements include the accounts of all subsidiaries. The common shares of all subsidiaries are held by the Company, except for .44% of the common shares of CIMCO Limited. The minority interest of these shareholders and of the holders of the non-voting preference shares of Lloyd-Truax Limited and the Class "A" shares of CIMCO Limited have been provided in the consolidated financial statements.
- (b) By the terms of an agreement with the minority preference shareholders of Lloyd-Truax Limited, the Company has undertaken to cause that subsidiary to redeem its preference shares at their par value in approximately equal quarterly instalments to 1980. At December 31, 1971, preference shares having an aggregate par value of \$289,186 were outstanding.
- (c) The minority interest in the consolidated net assets includes all of the issued Class "A" shares (25,000 shares, par value \$25,000) of CIMCO Limited. In the event of liquidation, dissolution, winding-up or other distribution of assets, the Class "A" shareholders participate in the distribution of net assets on a share for share basis with the holders of the 60,500 common shares, of which 60,233 shares are held by Toromont. The consolidated net worth of CIMCO Limited and its subsidiaries as at December 31, 1971 amounted to \$2,785,575.

2. Long-term debt

The following is an analysis of long-term debt:

5% unsecured debentures, repayable in equal quarterly instalments to February 1, 1983	\$207,160
Sundry loans and mortgages	130,494
	<u>337,654</u>
Less instalments due within one year	82,667
	<u>\$254,987</u>

3. Capital stock

- (a) The preferred shares, Series A, are convertible into common shares of the Company as follows:
Up to July 14, 1972 –
10 common shares for 3 preferred shares
July 15, 1972 to July 14, 1975 –
5 common shares for 2 preferred shares
July 15, 1975 to July 14, 1979 –
2 common shares for 1 preferred share
The shares are redeemable after July 15, 1974 at par value plus a premium of 3% until July 14, 1977, 2% to July 14, 1980 and 1% thereafter.
- (b) During the year, pursuant to an offer made to the preferred shareholders, the Company purchased for cancellation 258,725 preferred shares in exchange for 776,175 common shares recorded at a stated value of \$1 each, and \$1,034,900 cash.
In addition, 255,000 common shares were issued to executives of the Company and its subsidiaries under the Incentive Stock Purchase Plan for a total consideration of \$241,450, being market value at time of issue, evidenced by promissory notes (including \$212,500 due from officers of the Company).
- (c) As at December 31, 1971, common shares have been reserved for future issuance, as follows:

Shares

Under the provisions of stock purchase warrants expiring December 31, 1973 and exercisable at \$3 per share until December 31, 1972, and thereafter at \$4 per share until December 31, 1973	500,000
--	---------

Under conversion privileges granted to the holders of preferred shares, Series A – maximum common shares issuable	304,250
Shares reserved under the Incentive Stock Purchase Plan	33,750
Stock option at \$1.50 per share, expiring May 31, 1972	12,500
Total	<u>850,500</u>

4. Contributed surplus

The contributed surplus arose as a result of the purchase and cancellation of preferred shares during the year, and is comprised as follows:

Par value of 258,725 preferred shares purchased and cancelled	\$2,587,250
Less:	
Stated value of common shares issued in exchange – 3 common shares for each preferred share at \$1 per common share (approximate market value at date of offer)	\$ 776,175
Cash consideration – \$4 per preferred share purchased	1,034,900
Costs related to the offer	52,250
Commission on original issue of preferred shares, written off	192,500
Balance December 31, 1971	<u>\$ 531,425</u>

5. Contingency

Certain sales contracts of a subsidiary are subject to renegotiation under their terms. Management believes that renegotiation proceedings, if any, will not result in a material adjustment of earnings as reported.

6. Legal actions

The Company and its subsidiary, CIMCO Limited, have instituted legal actions against certain parties involved in the sale of the common shares of CIMCO Limited to Toromont in April, 1969, claiming damages and recovery of losses totalling approximately \$4,000,000.

7. Statutory information regarding directors and officers

Aggregate remuneration of directors and officers of the Company was as follows:

	1971		1970	
	10 Directors	5 Officers	9 Directors	6 Officers
	(4 officers were also directors)		(5 officers were also directors)	
Remuneration paid or payable	\$5,800	\$156,600	\$5,900	\$89,700
Certain of the directors and officers of Toromont also serve as directors and officers of the subsidiaries, without remuneration.				

8. Earnings per common share

Earnings per common share have been calculated conservatively using the number of common shares outstanding at the end of the year. Fully diluted earnings per common share have not been shown as the dilutive effect would not be material.

9. 1970 comparative figures

In 1970 a provision of \$549,000 was required as a result of an investigation during 1970 and early 1971 which indicated that profits on contracts of CIMCO Limited in progress at December 31, 1969 had been overstated in prior years. For this reason the auditors did not express an opinion on the 1970 statements of earnings and retained earnings, and source and application of funds.

